Patricia Carmina Inzunza Mejía [1]
Armando Javier Sánchez Díaz [2]

THE RESTORATION OF PUBLIC SECTOR OF MEXICO THROUGH THE FISCAL POLICY AND THE CONTEMPORARY ECONOMY

Abstract

In Mexico, since the early 80's, neoliberal economic policies are aimed at economic liberalization and fiscal discipline. Since then it has prioritized macroeconomic stability at the expense of public finance constraints and increased productive investment that prevent sustained economic growth of the country. In this context, the Mexican government continues to express that the economy is controlled by the market, however, in reality is necessary the intervention of State and the implementation of fiscal policies progresive, allowing restructure the public sector to better allocation and distribution application of economic resources. The aim is to show the impact of fiscal policy on economic growth from an endogenous perspective that allows the wedges visible by the repeated use of economic policies go against the development of production and economic welfare of the majority of Mexicans. To support the theoretical method, we analyze the main contributions of the scientific literature on the economic and fiscal, contrasting with statistical evidence to identify the ravages of contemporary economy and globalization, what reveal the lack of resources to encourage the public sector Mexico and limited ability to pay tax to economic development, limiting government revenue capacity, hence, arise a better implementation of productive public spending and increased state intervention in the economy, as a means to restructure the public sector and generate productive optimal conditions to ensure productive development and the financial solvency of Mexico. This could be achieved through fiscal policy with more levying higher revenues and the implementation of progressive spending to encourage investment in industrial infrastructure, productive development and social spending.

Keywords

Fiscal policy, ability to pay, revenue capacity, contemporary economy

1. Introduction

The recent financial and public debt crises in developed countries has resurfaced once again in the discussion about the role of public expenditure and the role of the state, because large sums of money should have gone to the productive areas (including large corporations) and banking, however, have been used to pay the debt.

Recent events of international crisis, has led to a growing interest in the economic and social actors on the recovery of forgotten public policy objectives now recovering value, to be left

[1] Universidad Autónoma de Sinaloa, Gral Angel Flores, Poniente, Sin Número, Centro, CP 80000, Culiacan de Rosales Sinaloa, Mexico, e-mail: inzunzap@uas.edu.mx
[2] Universidad Autónoma de Sinaloa, Gral Angel Flores, Poniente, Sin Número, Centro, CP 80000, Culiacan de Rosales Sinaloa, Mexico, e-mail: asanchez@uas.edu.mx

behind, for the preeminence of the Washington Consensus, and they seem to win again the interest of the makers of public policy.

One of these elements is forgotten Development Agenda, through a gradual and long-term fiscal and taxation policy as a key instrument for growth and economic development.
The progressive tax policy is crucial to improve the ability to pay in the private agents and increase state revenue capacity. In this article, the way the public sector capacity, the various functions of public spending and the privatization scheme, through which the public sector finances, influence the economic provisions of the government's performance and explains to private agents.

Given these constraints, constant pressures to reduce fiscal activism arise, and thus inhibit the increase in the level of tax and tax revenues. The subliminal idea that has been led to believe, is the argument and incrementing high public spending harms the stability of prices, and also harms economic growth.

In general, the Mexican government supports that increasing public spending positive impact is insignificant, arguing that its impact would be more harmful than the distortions generated taxes and fiscal resources why are used to finance public spending, or if , said spending displaces private spending (Tanzi, 2009).

In this context, the challenge for Mexico and other developing countries, is "to enhance the catalytic role of the public sector with high social returns policies, avoiding the effects of displacement associated to inadequate financial management and possible distortions of the tax system" (Martner, Podestá and González, 2013, p. 7).

We agree with what refer us Martner, Podesta and Gonzales (2013), by exposing how important it is for both economic growth and for building a level playing field, designing fiscal policies with countercyclical capacity, but emphasizing the importance of tax policies and tax revenue with collection capacity, which would consider the strategy of positive impact on income distribution, increasing quality in spending and tax revenue collection systems, efficient and equitable fiscal capacity.

However, we must be clear that to carry out this strategy of positive impact on development objectives: economic growth, distributional equity and social inclusion, fiscal policy, and the taxes, has several hacendarios instruments as components public spending, taxes and the deficit or debt, which in turn require public institutions to be properly managed and administered

We know of the existence of problems of political economy, institutional capacity, fiscal sustainability problems and efficiency costs of taxes and debt that may limit the ability to implement fiscal policies, but the functions of fiscal policy explaining for Musgrave and Buchanan, (1999): supply of public goods, adjust income distribution and stabilize the macro economy, enhance the growth of the economy, provided that there is sufficiency in the first two conditions or features of fiscal policy, and for that financial liquidity required in the economic activity and the Mexican state prosecutor.

1.1. The Problem: Lack of tax collection capacity

In Mexico, since 1982 an economic policy designed from the ground of the Washington Consensus is applied. For over three decades, the Mexican government has chosen to issue debt to finance their public spending. The elimination of trade activities, privatization of enterprises, preferential tax regimes, tax exemption and strong fiscal discipline, have generated a decrease in the tax base and low in sources of wealth of the State, diminished tax collection and financial capacity of the Mexican State.

In this scenario of economic liberalization, have also led to special tax regimes and the tax exemption, has led to a decline in the tax base and low in sources of wealth of the State. These actions have led to the Mexican economy has slowed, and maintained a sustained rise in commodity prices. Along with this, in the first half of 2013, it had increased in goods, given the increased value added tax (VAT) on food and medicine, on the grounds of poor collection tax.

While, the data show that offers CEPAL (2013a, p. 5) in the group of countries with the lowest tax burden, the case of Mexico, during of the last ten years, experienced a reduction in tax load (in the narrow sense). One explanation for the low levels of collection and unproductive taxes, is due to the implementation of a restrictive fiscal policy and regressive, whose ratios represent different tax rates, preferential arrangements, high exemptions, special treatment and subsidies high.

In the last fifty years, Mexico has been the Latin American countries with lower taxes and greater amount of transactions exempted from VAT, however, is also of the countries that reduced selectively the tax base by establishing zero rates or exempt items, for what the government Mexican, is proposing to increase the tax rates to offset the decline in the tax base, which has affected a reduction in tax revenues as a percentage of GDP.

Lowering taxes has a negative impact on growth, recognizing that the main obstacles to growth, indicate possible reforms of fiscal policy, either on taxation or public spending and its impact on growth, which is where it was due restoring the role of the public sector as a catalyst and dynamics driving force of the economy of Mexico.

2. The link of fiscal policy and growth: theory and empirical contribution

Even as the Inter-American Development Bank, recognizes that the major theoretical and empirical contributions to the literature of growth and fiscal policy, focusing on Latin America, are supported in the work of Kong (2007) and Myles (2009), shows that the significant link of fiscal policy and economic growth, growth diagnostics offer, made by Agosin, Fernández Arias and Jarmaillo (2009) and Rojas Suarez (2010), Martner, Podesta and González (2013), focus on identifying the limitations of growth, with the purpose of for develop tax reform actions and for mitigate the constraint of financial activity of the State.

Although these studies lead us to identify constraints to growth, from a physical perspective, this study is based on the tenets of Keynes (1945), and suggestions of Raul Prebisch (1950;

2008) and Aníbal Pinto (1965) on the social distribution of tax instruments for the support for economic , as well as in the conceptions of Celso Furtado (1968), on the renewal of the development agenda in developing countries, arguing in the best application of productive public expenditure, and subtracting weight to fiscal discipline leading to the containment of public spending.

With all these arguments, this abstraction largely focuses on the proposals of ECLAC (2010 and 2011) expressed in the publication: "Time for equality: closing gaps, opening trails" as well as the effects adverse to the economic liberalization policies implemented in Mexico, that have generated the last three decades. Nationally, we can analyze studies that expose the relationship between fiscal policy and economic growth.

These have been developed through a theoretical and methodological body called "endogenous growth models", assumed that fiscal policy can affect growth, provided that the application of public expenditure and obtained resource, express characteristics of ability to pay and contribution in the private agents and revenue capacity in the public sector.

Meanwhile, Ramirez Cedillo (2008), correlate well with endogenous growth perspective, but his think is that these models are based in almost always assumed public finances in balance based on fiscal discipline, so do not give importance that deserves the real risk of falling into a fiscal deficit. In this context it is considered that in making any fiscal policy should be that considered the countermeasures should be taken at a time of economic crisis to determine the pro-cyclicality or counter-cyclicality you deserve or was due to apply to restore economy public sector

Hence in the coming years, our country will face the challenge of increasing participation in financing flows in an international context marked by low growth and fiscal fragility, so it is required that the Mexican State have the resources to increase public spending and investment in the productive and social sectors.

We know that the Mexican economy is marked by the rule of fiscal discipline that involves taking different situations in terms of fiscal space available, mainly due to strong fiscal constraints facing, making it difficult to finance the finance constrains public policy and politics tax from a tax perspective. With this, a recent study by CEPAL (2013b, p. 17) provides for a reduction in official development assistance and social spending for development, which particularly affect countries like Mexico. It also argues that it has installed a stage and greater uncertainty for the next two years (until 2015) has complicated the task of accelerating progress towards achieving the commitments of the Millennium Declaration.

2.1. Fiscal Impact of the global crisis

It is widely documented by Zettelmeyer (2006), French-Davis (2009), Huerta (2009), Kohli, Loser and Sood (2010), Stiglitz (2010) and others, that in past three decades, Mexico has had a poor performance economic, largely due to the high vulnerability to external shocks, usually by the free flow of capital and the unfavorable conditions offered by business changes accounting for the Mexican economy.

Moreover, the pro-cyclicality of fiscal policy, has led to financial crisis unsustainable and moments that offer low rates of investment and savings, together with adverse effects on labor productivity and income distribution (Pagés, 2010).

On the fiscal front, numerous studies have shown that the international crisis of 2008-2009, was generated in a cyclical force and regressive fiscal policy pro. The financial crisis exposed the fiscal imbalances of developed economies and for various reasons, this fiscal decoupling stuck to issue debt instead of increasing the tax base to international financial capital and foreign trade, to collect more taxes.

The reasons that led to the fiscal imbalance, ranging from flexibility to general systems of taxation to corporation tax, electoral unpopularity or indirect taxes on labor income, to the lax enforcement of tax laws. Either way, the financial crisis, can set a high price and situate debt to many countries in the era of indebtedness. It has been corroborated that the neoliberal model, present in the last thirty years has generated weak public finances of Mexico, which has meant limiting the tax bases as a result of widespread exemptions, special treatments and fiscal wide flexibility.

It is clear that the discussion on the problems faced by economic agents, (whether companies, families and public institutions) is widely related to the adverse economic and financial events that arose following the recent economic crisis. Based on data offered by the National Institute of Statistics, Geography and Informatics (INEGI), and analysis by Sánchez Díaz (2013), in the last ten years, our country has registered an unfavorable developments in the economic growth (See Figure 1).

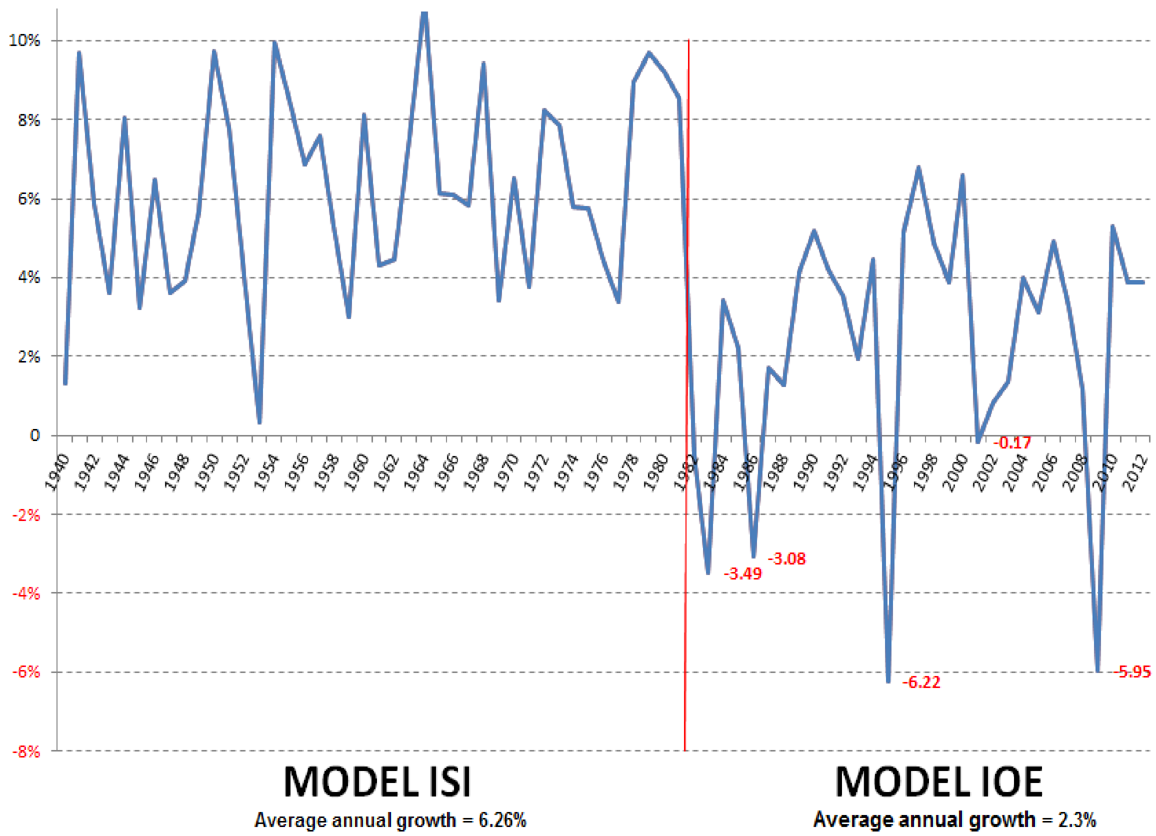

Figure 1: Mexico 1940-2012: Evolution of annual GDP growth rates under the ISI and EOI models (in%) (Diaz, 2013)

This Figure 1 we can see that in the years in which the industrialization model import substitution applied, is growing at annual average rates of 6.6%, in contrast with the current neoliberal model shows that after years of economic crisis in Mexico negative growth rates in 1983 had a rate of -3.49%, in 1987 a rate of -3.08 was recorded in 1995-a rate of 6.22, he had by 2002 a rate of -0.17% was recorded and is recorded the year 2009, a -6.54%.

We can see that in the years in which the ISI model is applied, not had negative rate, and the application of the model IOE, the economy grows below its powers, namely with the application of neoliberal economics Mexico just reaches the 1.95% average annual growth.

Undoubtedly, these results of poor economic performance, are attributed to the policies of trade liberalization that Mexico has adopted from the Washington Consensus, where the slowdown in aggregate demand has been constant, and the lack of investment in the productive sector has been a permanent.

It is clear that the neoliberal model negatively impacts the economic growth and that increase government revenue, while the Mexican government chooses the easy way fiscal policy: containment of public spending in order to maintain sound public finances, the higher tax rates consumption, new taxes, special schemes to finance capital and elimination of tariffs; prevents the state revenue available enough to invest in infrastructure, education and health resources, and therefore the development of the country are closed.

The lack of liquidity in the public finances of the country, largely due to the weak fiscal structure that prevents you spend and invest in the quantities demanded by the economic reality, thereby justifying the need to increase tax revenues and tax mainly in Mexico consumption, since the social and productive purposes claim and justify a significantly higher revenues without the Federal Government wants to appreciate and recognize that to those most affect this type of economic policy is to the most Mexicans.

So well, in terms of public revenues in accordance with those reported by Manrique (2005), when the model prevailing ISI, tax revenues in foreign trade, they provided to the government the 30% of the Gross Domestic Product (GDP) in 1960, and 20% of GDP in the early seventies, however, as a result of trade liberalization, in actuality these tax revenues do not represent the fifth of GDP.

With the poor results in the economic growth of Mexico, has been restricted productive activity and the creation and formalization of employment, the development of businesses and professionals, creating minor conditions to increase the taxable capacity of economic agents, reducing extreme poverty and the tendency of high inequality in income distribution is becoming longer.

3. Conclusions

Unlike what happens in developed countries, using fiscal policy to mitigate the pressures of the economic cycle, in Mexico, the pro-cyclical tax remains in force since its inception in the early 80's, just as they start applied the suggestions of the "Washington Consensus." Without prejudice, it is encouraging to decreased spending and sell public companies, without implying an increase in productive spending (capital).

Moreover, since the international financial crisis in 2008, Mexico, citizens, companies and especially the public sector have failed to recover, even when have shown greater resilience against adverse international context. In this sense, after less growth since 2009, with all that there was a recovery with low inflation and balanced fiscal accounts, the economic and financial situation in Mexico has remained until today, but you can not project for coming years to continue containing the spending public productive.

In summary, progress in the past decade were interrupted by the crisis in 2008, whose persistence has slowed progress toward the goals of economic development. Although the measures implemented in 2009 helped boost growth, with a view to have a positive incentive effect of the strategic sectors of the economy while generating more jobs, our country must continue to confront the high informality, reduced productivity and low income affecting a high percentage of the working population without access to quality jobs and social protection, or the encouragement of the productive sectors.

In this sense, rises the less ability to pay, and therefore the very low revenue capacity for the Mexican State, hence, there is an awareness that the reality facing Mexico, following the recent international crisis (2008-2009) is adversity, this requires several policy responses.

Regarding fiscal policy, it is essential to reconsider the results that the country has had on public finances and economic growth in the last thirty years.

It is from this reflection that as development actors slated should to participate: governments, financial institutions, multilateral institutions, analysts, academics and society as a whole, with the aim to refine policies of greater economic and financial scope to cushion future economic crisis, and to do this we need more progressive outlook and the fiscal policies, allowing incentives and raise aggregate fiscal capacity of the Mexican state demand.

In studies that have been conducted on the growth, a reduced economic capacity for the workers, professionals and entrepreneurs suggested, fosters a low rate of private savings, which would be a major growth impediment a particular country, then the stance of fiscal policy should be on changes in the tax system to promote increased savings rates. This can be achieved only by increasing the taxable capacity of economic agents, thereby fostering the restoration of the public sector.

After the failure of neoliberal policies on growth and development in emerging countries has begun to mention the need to implement economic policies against cyclical and progressive; since, our country continues to perform with fiscal discipline, the ability of THE fiscal politic, prosecutor for stabilizing the economy shrinks and tends to work pro-cyclically, i.e., to reduce productive public spending, is lost the chance that the government, through a policy of spending directed at employment, lost the industry or the agricultural sector to stabilize the economy.

In this sense, as a measure of the contemporary economy, to restore the public sector is preferable to implement a counter-cyclical policy, which although may incur fiscal deficit could at least ensure the implementation of spending on the productive sector so it is suggested to apply a counter-cyclical policy that seeks ways to increase profitability of private agents (generate taxable capacity) that seeks to solve pressing social needs that can guarantee full employment, and make a surplus in revenue capacity supported government.

Then, we consider that if this measure achieved restore the public sector, the virtuous circle of fiscal policy, which is in the expansion of productive public spending would be generated, since thereby be achieved encourage productive investment and employment and endowing private agents of taxable capacity, and in turn giving the government an area of opportunity to increase their revenue capacity.

Finally, we consider that well worth incurring fiscal deficit, as more productive public spending, given new opportunities to create jobs and further investment, having as a consequence an increase in the strength of economic activity. This would occur, provided it is able to generate taxable capacity in economic agents, which would imply a higher tax collection, which therefore represent greater revenue capacity.

For to promote progressive policies with long term vision is necessary to analyze both the past and the future of the economy, to identify faster and more effective to sustained and inclusive development paths, hence, we need a more dynamic financial activity, that moves at the pace of financial capital, i.e., taxing the entry and exit of international finance capital, to allow more funding in the short term. The new goal is to raise taxes on international financial capital and not taxing consumption that affects the majority of Mexicans, for Mexico to be more self-sufficient.

So well, the question is Can Mexico follow the same steps similar Central American countries such as Brazil and Argentina? The answer is not obvious, since the capacity of states to raise depends largely on the tax and economic capacity of economic agents, who in the end are those who contribute.

If clear, one of the indicators of revenue capacity of any country, given the proper functioning of its tax administration, but especially for the taxable capacity of economic agents. This indicator appears to be the variable (taxable capacity) more accurate revenue capacity of states. But in times of economic or financial crisis, the tax capacity is affected, and therefore also the revenue capacity of the state.

4. Bibliography

1. Agosín, M., Fernández-Arias, E. and Jaramillo, F. (2009). Growing Pains: Binding Constraints to Productive Investment in Latin America. IADB. Washington. D.C.
2. Comisión Económica para América Latina y el Caribe - CEPAL (2010). La hora de la igualdad: Brechas por cerrar, caminos por abrir. Trigésimo tercer periodo de sesiones de la CEPAL. Brasilia.
3. Comisión Económica para América Latina y el Caribe - CEPAL (2011). Panorama de la gestión pública en América Latina, en la hora de la igualdad, Instituto Latinoamericano y del Caribe de Planificación Económica y Social (ILPES), Naciones Unidad. Santiago de Chile.
4. Comisión Económica para América Latina y el Caribe - CEPAL (2013a). Panorama fiscal de América Latina y el Caribe, reformas tributarias y renovación del pacto fiscal. Naciones Unidas, LC/L.3580. Santiago de Chile.
5. Comisión Económica para América Latina y el Caribe - CEPAL (2013b). Desarrollo sostenible en América Latina y el Caribe Seguimiento de la agenda de las Naciones Unidas para el desarrollo post-2015 y Río+20. Naciones Unidas. Colombia.
6. Ffrench-Davis, R. (2009). Growth Challenges for Latin America: What Has Happened, Why, and How to Reform the Reforms. Commission on Growth and Development. Working Paper, (51).
7. Furtado, C. (1968). Teoría y política del desarrollo económico. Editorial Siglo XXI. México. D.F.
8. Huerta, G.A. (2009). La liberalización económica y la estabilización macroeconómica: modelo fracasado de desarrollo. EconomiaUNAM, 16(18), 89-105.
9. Keynes, J.M. (1945). Teoría General de la Ocupación, el Interés y el Dinero. traducción español del Fondo de Cultura Económica. México DF.
10. Kohli, N., Loser, C. and Sood, A. (2010). Latin America, 2040: Breaking Away from Complacency: An Agenda for Resurgence. SAGE Publications. London. UK.
11. Kong, T. (2007). A Selective Review of Recent Developments in the Economic Growth Literature. Journal of Economic Surveys, 21(1), 1-33.
12. Martner, R., Podestá, A. and González, I. (2013). Políticas fiscales para el crecimiento y la igualdad. CEPAL - Serie Macroeconomía del Desarrollo N° 138. Retrivered 22.10.2013 from enhttp://www.cepal.org/cgibin/getProd.asp?xml=/publicaciones/xml/2/51412/P51412.xml&xsl=/publicaciones/ficha.xsl&base=/publicaciones/top_publicaciones.xsl.
13. Musgrave, R. and Buchanan, J. (1999). Public Finance and Public Choice: Two Contrasting Visions of the State. MIT Press Books. The MIT Press.
14. Myles, G.D. (2009). Economic Growth and the Role of Taxation-Theory. OECD Economics. Department Working Papers, (713).
15. Pagés, C. (2010). The Age of Productivity. Banco Interamericano de Desarrollo (BID). Palgrave Macmillan.
16. Pinto, A. (1965). Concentración del progreso técnico y de sus frutos en el desarrollo de América Latina. Fondo de Cultura Económica enero-marzo. México. D.F. El trimestre económico, 32(125).

17. Prebisch, R. (1950). The Economic Development of Latin America and its Principals Problems. SLA. New York. United Nations.
18. Prebisch, R. (2008). Hacia una Teoría de la Transformación. Revista de la CEPAL, (96), 27-71.
19. Rojas, S.L. (2009). Growing Pains in Latin America. Center for Global Development. Washington. D.C.
20. Sánchez, D.A. (2013). La restauración del sector público para el desarrollo en América Latina. Ponencia presentada en la 4a. Mesa Redonda del CAEC-UAS-272.
21. Stiglitz, J.E. (2010). Financial regulation. Business Day Journal. Retrivered 1.07.2011 from http://www.businessday.co.za/articles/Content.aspx?id=113288 (2 de 3) [01/07/2011 05:46:28 p.m.], 2010.
22. Tanzi, V. (2009). The Role of the State and Public Finance in the Next Generation. In Martner Ricardo (editor). Las finanzas públicas y el pacto fiscal en América Latina. CEPAL–Serie Seminarios y Conferencias, (54).
23. Zettelmeyer, J. (2006). Growth and Reforms in Latin America: A Survey of Facts and Arguments. IMF Working Papers, (06/210).